

NSC BRIEFING

16 December 1959

INDONESIA-COMMUNIST CHINA

- I. Relations between Indonesia and Communist China have hit bottom as result of current Indonesian policy toward alien Chinese.
 - A. Dispute, which has been gathering momentum since late summer, is based on Indonesian decree banning alien (in effect, Chinese) retail merchants in rural areas; related order in certain areas requires resettlement of these retailers in nearby towns and cities.
 - B. Decree is part of campaign of "economic nationalism" which was directed first against Dutch, then against Nationalist Chinese, and now against Peiping-oriented Chinese who have failed to register as Indonesian citizens.
- II. Peiping strongly pressured Indonesian government for repeal of decree; when this unsuccessful, ordered Chinese embassy officials to circulate among Indonesian Chinese and instruct them to resist Indonesian government orders.
 - A. Peiping's latest protest on 9 December renewed accusations of Indonesia's "intolerable" treatment of Overseas Chinese, proposed immediate implementation of long-pending Sino-Indonesian nationality treaty.
- III. Indonesia's Foreign Minister Subandrio replied 11 December, rejected Peiping's accusations and explained Indonesia had been ready for some time to implement nationality treaty. He said, however, implementation of treaty would not affect present enforcement of ban.

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B. Government recently has reaffirmed 1 January 1960 as deadline for implementation of ban.

IV. In Chicom view, Indonesian decree has critical bearing on contest between Peiping and Taipei for loyalties of Overseas Chinese.

A. Peiping's People's Daily on 12 December warned that it is a "great mistake" to assume that Overseas Chinese have nowhere to go or that Communist China will watch "unjust discrimination and persecution with arms folded."

B. Chinese have launched mass propaganda campaign in mainland China; may threaten economic retaliation.

C. To ensure that the largest possible number of those who leave Indonesia as a result of rough treatment will choose the mainland over Taiwan, Peiping is publicizing the warm welcome given some recent returnees.

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- VI. On Indonesian political scene, President Sukarno continuing to press his concept of "guided democracy" with strong support of army under Chief of Staff General Nasution and First Minister Djuanda.
- A. The continuation of martial law under presidential decree announced today facilitates both "guided democracy" and the army's political role.
 - B. Indonesian Communist Party, although opposing presidential decrees on Overseas Chinese and local government changes, continues to support Sukarno himself, has carefully avoided putting direct blame on Sukarno and has held specific cabinet ministers responsible.
- VII. Widespread dissidence continues to be a major problem facing government, and military operations account for major financial drain.
- A. Army reportedly plans to mount new offensive in Sumatra some time between early January and May.
 - B. "Revolutionary" forces are estimated at 8,000 in Sumatra and 4,000 in Celebes. Government must also cope with dissidence by fanatic Moslem and bandit groups in North Sumatra, West Java, and South Celebes, combined forces of which are estimated at 12,000

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VIII. Monetary reform measures of last August, which were supposed to correct serious inflationary situation, have been relatively ineffective.

- A. Money in circulation by end of calendar year 1959 is expected to be 32.3 billion rupiahs, about same as before 25 August measures.
- B. As of 5 December rupiah, officially valued at 45 to US dollar, was selling at 185 to dollar in Singapore, and will probably go higher.
- C. But this only one phase of generally gloomy economic picture, which requires drastic government action. This not now in offing.

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